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MARKETING AMERICA'S FOOD

The U.S. food marketing system serves more than 200 million Americans by getting farm products to consumers in the form and at the time they want them.

- The system converts the Nebraska steer to steaks on the dining tables of New York; the wheat of the Great Plains to the toast served in a San Francisco restaurant.
- The food marketing system: Assembles, grades, stores, processes, packages, transports, wholesales, retails, prices, communicates, takes risks, controls quality, merchandises, exchanges ownership, brands, regulates, develops and tests new products.
- The system includes some 800,000 firms which employ the equivalent of 5.3 million full-time workers. The workers are distributed as follows:

Processing	1.4 million
Wholesaling	0.6 million
Retail stores	1.4 million
Eating places	1.9 million

- The average annual rate of growth of output per man-hour in 1954-68 was higher for food manufacturing industries (3.6 percent) than for all manufacturing industries (3.1 percent).
- The volume of farm products entering the marketing system has risen 26 percent since 1957-59 with growth in population and increasing consumption per person.
- Marketing added over \$63 billion in value to food produced on farms in 1969.

U.S. consumers in 1969 spent \$103.6 billion for all food--\$510 per person.

- Ninety percent was spent for domestic foods; ten percent for foreign foods.
- The shares of food expenditures going for meat products and fruits and vegetables have risen; those for dairy, poultry and eggs, and grainmill products have fallen.

Percent Spent for Major Commodity Groups

Commodity group	<u>1947-49 average</u>	<u>1957-59 average</u>	<u>1969</u>
	-----Percent-----		
Meat products	29.9	28.4	30.5
Dairy products	19.1	18.9	15.7
Poultry and eggs	9.7	8.0	7.7
Fruits and vegetables	17.9	21.4	21.6
Grainmill products	14.7	14.5	13.5
Miscellaneous	<u>8.7</u>	<u>8.8</u>	<u>11.0</u>
Total	100.0	100.0	100.0

Food expenditures took 16 1/2 percent of disposable personal income of consumers in 1969, the lowest share on record.

--Share of income spent for food varies widely around this national average.

--One study shows that families with annual incomes of \$15,000 up spend 12 percent for food; those with incomes below \$1,000 spend more than 50 percent.

Many consumers are literally buying their way out of the kitchen.

--Supermarkets handle from 6,000 to 8,000 or more different items. Many are convenience foods that did not exist a few years ago.

--New foods often feature "built-in chef service" as well as "built-in maid service." Some are better than those the busy housewife has time to prepare.

Consumers are increasingly going out to eat, making away-from-home eating one of the fastest growing segments of the U.S. food industry.

--Commercial restaurant sales doubled between 1959 and 1969 and amounted to about \$20 billion in 1969.

--Total value of food served in away-from-home eating places in 1969 was estimated at \$34 billion. This includes over \$7 billion, retail value, of food served in institutions such as hospitals, schools, and rest homes.

Food marketing charges account for two-thirds of the \$95.3 billion spent by consumers for foods that originated on U.S. farms.

Marketing BillBillions of Dollars1969 (Preliminary)

Labor	29.3
Transportation	4.8
Profits (before taxes)	3.9
Depreciation	2.2
Business taxes	2.3 est.
Advertising	2.0 est.
Rent (net)	1.7
Interest (net)	.5
Repairs, bad debts, con- tributions	1.2
Other	<u>15.3</u>
Total	63.2

Transportation takes only 6 cents out of the food dollar, even though most foods are hauled hundreds of miles between producer and consumer.

--About 392 million tons of products are transported off U.S. farms each year--about 1 ton per cultivated acre.

--To haul these products, the U.S. has over 200,000 miles of railroads, 1.9 million railcars, 16.8 million trucks and 3.3 million miles of intercity highways (1968 figures), and 26,000 miles of improved waterways.

--Competition among the various modes of transportation is increasing.

U.S. Ton-Miles of Cargo Hauled, 1968

Rail	757 billion
Waterways	521 billion
Truck	396 billion
Air (domestic carriers only)	2.9 billion

The marketing spread or margin--the difference between retail cost and farm value--varies widely among foods depending largely on the amount of processing required.

<u>Food Item</u>	<u>Marketing Margins</u>	<u>Farmer's Share</u>
	-----Percent-----	
Meat and poultry products	43	57
Dairy products	52	48
Butter	27	73
Ice Cream	66	34
Bakery and cereal products	81	19
Bread	86	14
Cornflakes	92	8
Flour	65	35
Fruits and vegetables	73	27
Fresh	67	33
Processed	79	21

Food marketing firms are generally becoming larger in response to technological changes in processing, material handling, transportation, and managerial techniques.

--Example: In the flour milling industry new equipment was developed for fine grinding and air classification milling. This coupled with running analyses of protein, moisture and ash content, give large mills the advantage of closer control over product quality.

--The number of flour mills dropped from 1,192 in 1948 to 541 in 1967. By 1965, the 31 largest flour mills in the U.S. had more than 40 percent of our flour milling capacity.

Mergers and acquisition have played an important role in reducing numbers of marketing firms.

--Mergers have also enabled food firms to quickly shift emphasis from one industry or set of commodities to another.

--Example: Between 1950 and 1966, 25 leading food manufacturers entered a new type of food processing business 108 times. Almost 90 percent of these resulted from mergers.

The number of food processing firms declined from 40,000 in 1947 to 32,000 in 1963.

--Large multi-product, multi-industry firms are emphasizing brands, product differentiation and new product development.

--Smaller food manufacturers generally pack a large proportion of their output for private label accounts.

- Some industries actually had an increase in plant numbers. These industries usually had larger than average increases in output such as meatpacking and poultry or produced relatively new products such as frozen fruits and flour mixes.

The number of merchant wholesalers has decreased sharply, but sales per establishment have tripled since 1948.

- Retail chains and large supermarkets are increasingly performing whole-sale functions.
- The number of wholesalers which sponsor retail stores or which are owned cooperatively by groups of retail stores has increased slightly.
- Only 17 percent of the firms in the supermarket industry have no central warehouse or are not affiliated with either a retailer-owned cooperative or a wholesaler-sponsored voluntary chain.

The number of grocery stores in the U.S. declined from 260,000 in 1960 to 219,000 in 1969.

- Most of this decline has occurred among small stores (currently defined as having sales of less than \$100,000). The number of small grocery stores declined from 168,000 in 1960 to 131,000 in 1969.
- The number of supermarkets (defined as having annual sales of \$500,000 or more) has increased from over 33,000 in 1960 to over 37,000 in 1969. Their share of grocery store sales increased from 69 percent in 1960 to 76 percent in 1969.
- Discount supermarkets and convenience food stores recently have grown rapidly.
- A trade study estimates that new items introduced over the last ten years account for 55 percent of items handled, 52 percent of sales.
- New "market accepted" foods include: boil in the bag foods; low calorie diet foods; instant dry skim milk, potato flakes, sweet potato flakes; artificial sweeteners; freeze-dried coffee, salad components, gravy mixes, and instant breakfasts; mixes including cheese dips, milk shakes, salad, gravy, custard, cake, bread, biscuits and rolls; artificial orange juice; artificial milk and other dairy products; snack foods; imitation flavors; and nutritional supplements, including protein supplements.
- Many of these new foods are made possible by emulsifiers, stabilizers, and preservatives of various kinds that provide better textures or flavors, or insure better keeping qualities.

- Greater efficiency in food handling has resulted from innovations such as the general use of the bulk box, fork lift truck, and automatic dumping machines; "Big John" bulk freight cars; unit trains; the adoption of carbon dioxide or liquid nitrogen as cooling agents for refrigerated trucks, and improved equipment for air transport.
- Food processing innovations include: continuous vacuum drying; spray-drying; dehydrofrozen and dehydrocanned foods; freeze-concentration; aseptic canning; hydrostatic canning; and freeze-drying. Not all of these processes, however, have taken on commercial importance.
- Innovations in packaging include aluminum containers; new light-weight steel cans; tab-pull openers; food pouches made of laminated combinations of plastic, paper, and foil; flexible films; and plastic containers.
- A new computerized check-out, inventory, and ordering system is currently being tested by food retailers.

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